

Agenda Report

March 14, 2022

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Department of Finance
**SUBJECT: QUARTERLY INVESTMENT REPORT – QUARTER ENDING
December 31, 2021**

RECOMMENDATION:

This report is for information only.

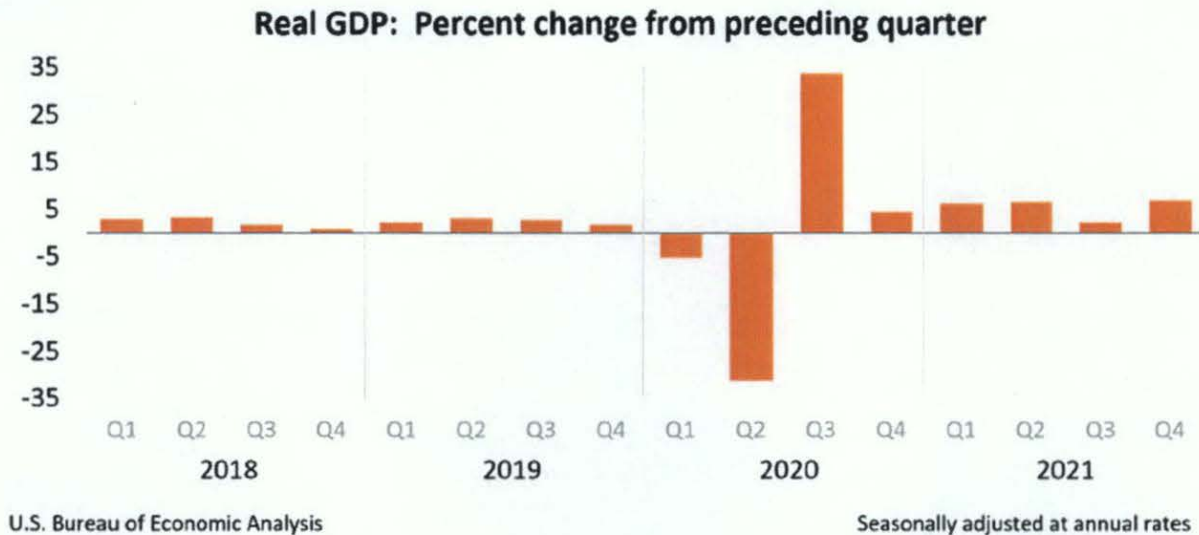
BACKGROUND:

Government Code Section 53646 (2)(b)(1) states that in the case of a local agency, the Treasurer or Chief Fiscal Officer (CFO) may render a quarterly report to the legislative body of the local agency containing detailed information on: 1) all securities, investments, and moneys of the local agency; 2) a statement of compliance of the portfolio with the statement of investment policy; and 3) a statement of the local agency's ability to meet its pool's expenditure requirements for the next six-months. By making these reports optional, this bill does not impose a state-mandated local program, however encourages local agencies to continue to report. The bill also states that the Treasurer or CFO may report whatever additional information or data may be required by the legislative body of the local agency.

The quarterly report shall include the following:

1. The type of investment, name of the issuer, date of maturity, par and dollar amount invested in each security, investment, and money within the treasury;
2. The weighted average maturity of the investments within the treasury;
3. Any funds, investments, or programs, including loans, that are under the management of contracted parties;
4. The market value as of the date of the report and the source of this valuation for any security within the treasury; and
5. A description of the compliance with the *Statement of Investment Policy*.

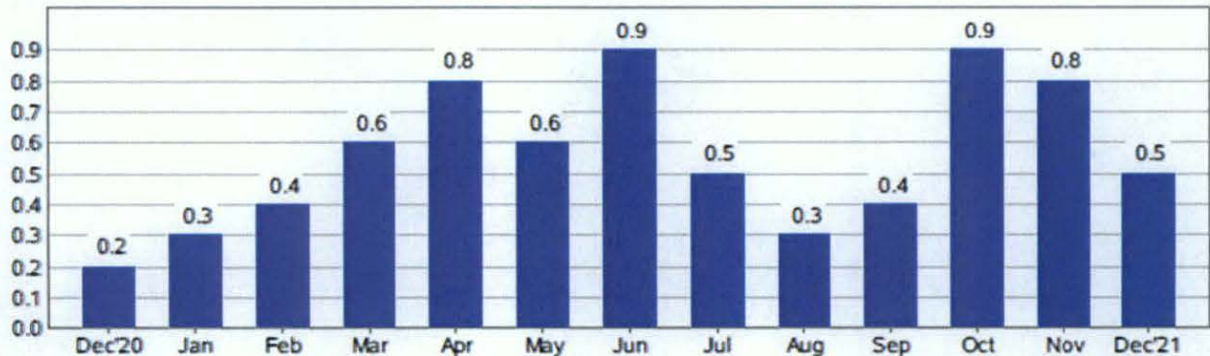
Economic Summary



The Bureau of Economic Analysis (BEA) reported Gross Domestic Product (GDP) growth rate at 7% for the quarter ending December 2021, exceeding economists' expectation, and revised the prior quarter's growth rate upward to 2.3%. The BEA attributed the rise in the GDP for the quarter to the increase in Personal Consumption Expenditures (PCE) in the area of *goods* and *services*. The principal leaders in *goods* were "other" nondurable goods, which experienced strong sales concentrated at the start of the fourth quarter as most Americans pulled forward their holiday shopping to navigate shipping delays and a surge in COVID-19 cases. In *service*, the frontrunners were health care, food service, and accommodations. The overall U.S. GDP growth rate for 2021 was an impressive 5.7%. The most recent U.S. economic forecast, conducted in February 2022 and based on a survey of 76 economists as reported by Bloomberg, predicts the U.S. economy will expand 3.7% in 2022, 2.5% in 2023 and 2.1% in 2024.

On January 7, 2022, the Bureau of Labor Statistics (BLS) noted the U.S. unemployment rate was 3.9% or 6.3 million unemployed persons at the end of December 2021. The BLS reported the unemployment rate for adult men at 3.6%, adult women at 3.6%, Whites 3.2%, teenagers 10.9%, Blacks 7.1%, Asians 3.8%, and Hispanics 4.9%. The unemployment rate for Los Angeles-Long Beach-Anaheim area was 6.2%, the second highest in the U.S. metropolitan area category. The highest was New York-Jersey City-White Planes NY-NY at 6.3% for the quarter. Unemployment rate for the City of Pasadena was 5.2%.

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Dec. 2020 - Dec. 2021
Percent change



Inflation growth slowed slightly for the quarter, but remains a significant concern amongst investors and a risk to the economy. The BLS reported the monthly Consumer Price Index (CPI) for December at 0.5%, November was 0.8%, and October was 0.9%. The BLS reported the annual CPI for the 12-months ending December 2021 at 7%, the largest 12-month increase since June 1982. The Core CPI, which excludes food and energy components in the index rose 5.5%, the largest 12-month change since February 1991. The energy index rose 29.3% over the last year, and the food index increased 6.3%. Most Fed officials project core inflation to reach 4.4% at the end of this year before declining to 2.7% next year and 2.1% by the end of 2024. Most recently, the Fed Chair stated, "Most forecasters, including at the Fed, continue to expect that inflation will move down significantly over the next year as supply and demand imbalance abate."

In late November, the Fed stated its plan to end the *taper* of its asset purchases a few months sooner. The market anticipated the program would end in June, but the Fed has signaled it could finish it as soon as March 2022. The Fed's balance sheet has mounted to a total of \$8.757 trillion at the end of December 2021. The current consensus of most market analysts is that the Fed will trigger three to five rate hikes in 2022 to control inflation potentially raising the overnight Fed Funds rate from the current 0.08% effective rate to 1.5% by the end of 2022.

The U.S. Department of Housing and Urban Development (HUD) reported in December 1,724,700 housing units authorized by building permits in 2021, which represents 17.2% increase from the 2020 figure of 1,471,100 units. HUD also noted an estimated 1,337,800 housing units completed in 2021, which is 4.0% above the 2020 figure of 1,286,900. Realtor.com reported that at the end of December, the national inventory of active listings declined by 26.8% over last year, and down 57.1% compared to 2019. In the same report, Realtor.com noted the total inventory of unsold homes, including pending listings, declined by 16.1% in December.

The one-year Treasury bill ended the quarter at a 0.376% yield as of December 31, 2021. Rates on longer maturities have continued to rise, with the five-year yield ending

at 1.263% and the thirty-year at 1.903% on December 31, 2021, compared to the 0.965% and 2.045% (respectively at the end of September).

Notwithstanding the market volatility in anticipation and reacting to the Fed's comments, all major indices ended positive for the year. The Dow Jones Industrial Average closed up 7.37% for the quarter and up 20.78% for the year. The S&P closed up 10.64% for the quarter and up 28.47% for the year and the technology-driven NASDAQ ended up closing up 8.28% for the quarter and up 22.14% for the year.

Total Funds Under Management

The table below represents total City funds under management based on their market values as of December 31, 2021.

	12/31/2021	09/30/2021	\$Change
Pooled Investment Portfolio	\$605,016,569	\$583,988,591	21,027,978
Capital Endowment	2,077,819	2,077,883	(64)
Stranded Investment Reserve Portfolio	46,907,157	46,914,014	(6,857))
Special Funds	39,886,456	27,904,349	11,982,107
Investments Held with Fiscal Agents	51,129,015	47,524,121	3,604,894
PARS Section 115 Trust	15,991,947	15,728,139	263,808
Total Funds Under Management	\$761,008,963	\$724,137,097	\$36,871,866

The Pooled Investment Portfolio value increased by a net \$21,027,978 due to the following transactions during the quarter:

Net Investment Earnings (Fair Market Value Change plus Interest Income)	\$ (3,715,998)
Deposits and Credit Card Receipts	120,825,633
Property Tax Revenues	29,796,143
Sales Tax and Other State Apportionments	18,320,756
HUD Receipts Net of Payments and Loans	3,641,173
Payroll and Payroll-related Expenses	(71,897,623)
Vendor Payments and Accounts Payable Checks	(42,073,845)
Debt Service Payments Net of Reimbursements and Subsidies	(11,915,952)
Water and Power Payments Net of Receipts	(25,980,405)
Net Transfer from Other Funds	1,156,096
Drawdown from 2020A Water Revenue Project Fund	2,872,000
Total	\$ 21,027,978

The Capital Endowment Fund decreased by \$64, representing the investment earnings for the period adjusted by the market value change of investments.

The Stranded Investment Reserve portfolio decreased by \$6,857 representing \$165,352 investment earnings for the period adjusted by (\$172,209) in market value change.

Special Funds increased by \$11,982,107. This was due to the receipt of \$15,000,000 new bond proceeds from the issuance of the 2021A Water Revenue Bonds series, a drawdown of (\$2,872,000) from the Water Revenue Bonds 2020A series Project Fund, and a net change in investment value of (\$145,893).

Investments held with fiscal agents increased by a net \$3,604,894 representing the receipt of \$3,616,094 as reimbursement from Southern California Public Power Authority due to an overbilling in Fiscal Year (FY) FY2021, the addition of the 2021A Water Revenue Bonds Cost of Issuance Fund in the amount of \$971,248, the withdrawal of \$542,221 to pay debt service on the 2016A Lease Revenue Bonds, the withdrawal of \$95,686 to close the 2006 Tax Allocation Bonds Reserve account and an adjustment of (\$344,541) as a market value change of investments.

The PARS Section 115 Trust account increase by \$263,808. The change was comprised of \$283,113 of market value increase of investments and (\$19,305) of investment expenses.

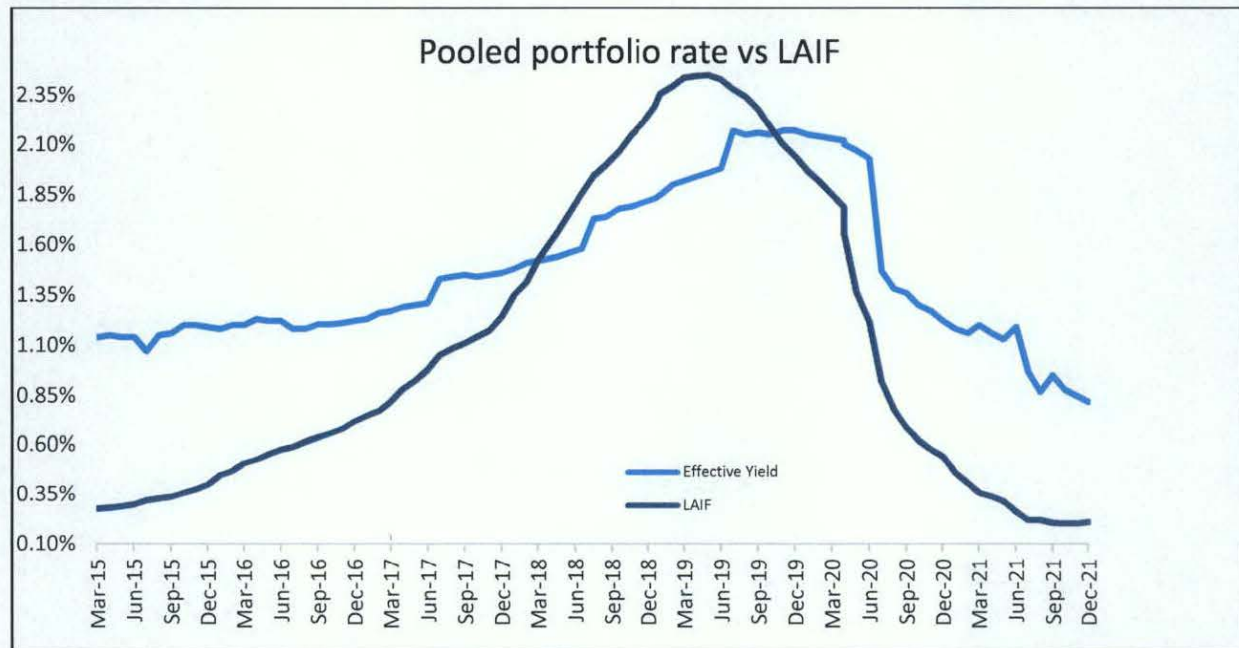
The City pools all internal funds to gain economies of scale and to simplify the investment function. There are over 100 funds in the Pooled Investment Portfolio. As of December 31, 2021, the General Fund's investment balance was estimated at \$28.1 million representing 4.65% of the December 31, 2021 Pooled Portfolio value. The General Fund's cash balance fluctuates daily based on the timing of revenues receipts and payment of expenditures. Investments in the Capital Endowment Fund, the Stranded Investment Reserve Fund, the Special Funds, the PARS Section 115 Trust account, and funds held with fiscal agents are restricted funds or bond proceeds reserved in accordance with the City Charter, City ordinances, bond indentures, and Trust Agreements. The City targets an average duration of two-years in managing the pooled portfolio with a duration range of 1.5 to 2.5 years based on the portfolio's risk and return evaluation, the Treasury yield curve, and industry best practices as it pertains to public funds management. As of December, 2021 the portfolio's effective duration was 2.43 years.

Per government code requirements, attached are reports by each fund indicating the type of investments, date of maturity, par and dollar amount invested in each security, and investment and moneys within the Treasury with market values as of December 31, 2021. On a monthly basis, the City Treasurer prices the pooled portfolio and all other funds and investments under management. The market values are obtained from Interactive Data Corporation (IDC) and from Bloomberg Financial System. IDC is an independent third-party whose sole service is to provide market prices for all types of securities.

The types of securities held in the portfolio and their percentage allocation to the total are in compliance with the City's FY 2022 Investment Policy, which was adopted by the City Council on May 24, 2021 and Section 53600 of the State Government Code. The City Treasurer currently maintains over \$60 million short-term, liquid investments (1 to 90 day maturities), which represents approximately 1/12th of the City's total aggregate annual Operating Budget. This balance, along with anticipated cash flows into the City's account, represents a strong liquidity position to meet budgeted expenditures for the next six-months.

The yield to maturity on the pooled portfolio plateaued beginning in FY 2020 and began decreasing due to the significant drop of overall interest rates in the financial markets, especially after the FED cut the FED Funds rate to the 0%-0.25% range. As the financial markets now anticipate the Fed to gradually increase the Fed Funds rate in 2022, it is expected that the yield to maturity of the pooled portfolio will gradually increase accordingly. The FY 2022 to date actual effective yield, which includes realized investment gains and losses was 0.83%.

The graph below represents the historic effective yield of the Pooled Portfolio over the last five-years, through December 2021 compared to the Local Agency Investment Pool (LAIF) rate managed by the State Treasurer.



COUNCIL POLICY CONSIDERATION:

This quarterly report supports the City Council's strategic planning goal to maintain fiscal responsibility and stability.

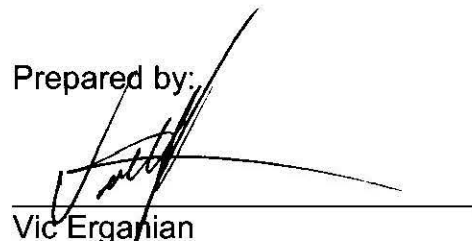
FISCAL IMPACT:

There is no fiscal impact as a result of this action report nor will it have any indirect or support cost requirements. There is no anticipated impact to other operational programs or capital projects.

Respectfully submitted,


MATTHEW E. HAWKESWORTH
Director of Finance

Prepared by:


Vic Erganian
Deputy Director of Finance/City Treasurer

Approved by:


CYNTHIA J. KURTZ
Interim City Manager

Attachment: (1)

Attachment A – Quarterly Investment Report - Quarter Ending December 31, 2021